

Trump sets date for signing of “phase one” trade deal with China

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The US and China will sign off on a “phase one” trade agreement on January 15, according to an announcement by US President Trump issued on New Year’s Eve.

Trump said he would sign a “very large and comprehensive” deal in Washington in the presence of “high-level” representatives of China and he would be going to China to start negotiations on a “phase two” deal at a later date.

Details of the agreement, which comprises an 86-page document, have yet to be released as both sides are examining the respective translations. It is believed to cover agreements by China to purchase more US products, particularly agricultural goods, commitments by China to take stronger action on the protection of intellectual property, a ban on competitive currency devaluation and improved access to Chinese markets for US financial services companies.

The US has made very few concessions. The 25 percent tariff imposed on \$250 billion worth of Chinese goods will remain in force. The US only agreed not to impose a tariff on \$156 billion worth of Chinese consumer products, which had been scheduled to go into effect on December 15, and to halve a 15 percent tariff on \$120 billion worth of goods imposed last September.

It also contains provisions for tariffs to be re-imposed if the US deems that China has broken the terms of the deal and agreement cannot be reached via a disputes-settling procedure.

The signing of the “phase one” deal, assuming it goes ahead and there are no disagreements over the translation of the document, does not bring an end to the US trade war against China launched in May 2018 but is merely a limited truce.

The second stage will involve the key issues left out

of the “phase one” deal, namely the US demand that China take action to halt its subsidies to state-owned enterprises and submit to US demands on the protection of intellectual property. These issues, rather than the demand that China increase its imports of US goods, have been at the centre of the conflict.

Powerful sections of the US political and military-intelligence establishments are determined to curb, if not altogether suppress, China’s industrial and technological development under its “Made in China 2025” program, which is regarded as an existential threat to US economic and even military dominance.

The key component of the “phase one” deal is the reported agreement that China will increase its purchases of US products and services by \$200 billion over the next two years. Agricultural products will form a large part of this increase.

According to US Trade Representative Robert Lighthizer, China has agreed to boost its agricultural purchases to \$80 billion over the next two years. China has not confirmed this number and there are considerable doubts about how such an increase—an effective doubling of Chinese purchases—will be obtained.

The Chinese side has been very reluctant to commit itself to specific details because it fears this will bring charges from its other major trading partners that it is engaging in “managed trade” contravening regulations of the World Trade Organisation against such practices. Beijing has insisted that increased purchases of US products must be “market-based.”

An article in the *South China Morning Post* noted that because of the level of Chinese imports, totalling \$1.84 trillion in 2017, it was certainly mathematically possible for Beijing to meet US demands. But this would not be achieved without “trade diversion,

substituting the imports of other nations and thereby upsetting other trading partners and potentially inviting challenges at the World Trade Organisation.”

According to a Brazilian research organisation, cited in the article, Brazil could lose \$10 billion, some 28 percent of its agricultural exports to China, as a result of the “phase one” deal and the boost for US soybean exports.

New Zealand, which sends one quarter of its agricultural exports to China, as a result of a free trade deal between the two countries, could be adversely affected, with US firms likely to target lucrative meat and dairy products markets.

Steve Jacobi, executive director of the New Zealand International Business Forum told the newspaper the US-China deal was an “important issue” and he would be looking at the detail of the agreement “to assess whether our trade interests are affected.”

The European Union may also be adversely impacted because it competes with the US in a number of areas, including cars, auto products, chemicals and aircraft, in the Chinese market. It is considered impossible that the \$200 billion increase in US exports to China envisaged under the agreement, can come from agricultural and energy products alone.

Japan and South Korea could also see their exports of cars and electronics products such as semi-conductors reduced in favour of increased US imports.

Discriminatory action against US rivals is being made more likely by the slowing of the Chinese economy. According to official data, growth in the Chinese economy slowed to 6 percent in the third quarter of 2019, the lowest level since 1992, with unofficial estimates putting it at a lower level.

There was a contraction of 0.3 percent in Chinese exports between January and November 2019, while imports were down by 4.5 percent in the same period. The growth of fixed asset investment in manufacturing dropped to a record low of 2.5 percent.

Two developments in recent days have pointed to the concerns in official circles in Beijing about the outlook for the Chinese economy. Last week the National Development and Reform Commission, the country’s major planning agency, published four articles on the same day denying suggestions that the economy was slowing.

And the New Year opened with a decision by

China’s central bank to reduce by \$115 billion the reserves that banks are required to hold with it. The People’s Bank of China said the reduction of 0.5 percent in the reserve requirement ratio, which will come into effect on January 6, would help free up funds for the economy.

The bank said the move was to help offset cash withdrawals before the Lunar New Year and did not signify a change in its monetary policy. But the fact that it was undertaken, amid clear signs of a slowdown, points to wider concerns.



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